

December 2018 Monthly Commentary

December only added to a very difficult year. The ag markets – particularly the soybean complex – continue to shoot up or down aimlessly in response to the latest Trump tweets or Reuters headlines while kicking any fundamental inputs down the road. Obviously, I remain a big believer that fundamentals always drive markets in the longer-term, but in the near-term the markets seem oblivious. Clearly the fundamentals in the soybean complex are bearish. The market has to respond at some point. We will be diligent to limit exposure, but need to be ready when the market is ready to turn, which is going to happen at some point. We will also try to get out of shorts on big breaks and re-establish shorts as the market bounces.

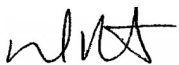
Fundamentals in the soy complex look more bearish than ever before. Brazil continues to export their old crop soybeans, exporting a massive 4.2 MMT in December. This shows that last year's crop was considerably underestimated (or - perhaps to a lesser extent – their carryin stocks were understated). The entire market expected Brazil to run out of soybeans and even perhaps have to import soybeans from the US in Nov/Dec of last year. Not only did Brazil not have to import and did not run out – they exported MORE soybeans in December than the US did. US exports slowed even further in December as world demand shows signs of slowing. The window for US exports is closing rapidly. The one exception is, of course, the Chinese 'good will' (limited volume) purchases of US soybeans at a premium to Brazil in order to help facilitate a trade agreement between the two countries. While this got the media headlines and the market reaction, the work behind the scenes suggests the demand from the rest of the world is shifting back down to South America faster than China is buying these limited supplies. Over time, the market should better understand that US exports are overestimated even with these Chinese purchases and US carryout is growing – but again it appears as if that will take more time. US cash markets are heavy. Commercials have registered significantly more soybean and meal certs for delivery heading into January, with no stoppers showing.

The one area to keep an eye on is South American weather. The market is slowly beginning to walk Brazil and Paraguay production estimates lower, with most now in the 115-120 MMT range for Brazil (vs. 122 MMT USDA) with estimates for Paraguay edging lower as well. Argentina remains in good shape so far. However, even a 115 MMT production level in Brazil would still boost world soybean supplies to record levels this year with further increases likely next year. However, this will need to be monitored.

Corn and wheat futures remain stuck in a range. Just as they have sat while soybean futures rallied – I'd expect they may also sit within the range even if soybean futures set back as I anticipate they should in January through March.

Unless South American production declines much further, the function of the soybean market will eventually be to 'run away' from soybean acreage in the US in 2019. Deferred corn futures should firm relative to deferred soybean futures, but that can be via corn sitting still as beans go down. Higher corn acreage in 2019/2020 would be amply supplied next year. I see no big opportunities in the corn or wheat markets at this time.

Regards,



Mark Ditsch

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